

## CONSULTATION RESPONSE FORM

**Question 1** - The table in part 5 provides an overview of the proposals under each of the EU 2020 headings – Smart, Sustainable and Inclusive – matched against the relevant thematic objective and investment priorities. Do you think the investment priorities are the most appropriate ones for the activity suggested?

In general, SE agrees that the investment priorities are the most appropriate ones for the activities suggested. SE participated in the Shadow Strategic Delivery Partnerships on Competitiveness, Innovation and Jobs and Environment, Low Carbon and Resource Efficiency that examined the draft proposals for strategic interventions. The summary of priorities within the consultation document generally reflects the outcome of these group discussions, and the joint discussion with the three Shadow SDPs. We are firmly committed to the funds being focussed on international growth ambitions, targeted on Scotland's Smart Specialisation priorities also reflecting the potential of regional and local growth assets.

SE has led on the drafting of proposals in Theme 1 on Business Competiveness and Innovation, and believes these are key areas for investment for the ESIF programmes, to strengthen the business base in support of driving smart sustainable economic growth.

SE has also contributed to the Theme 2 proposals on Low Carbon Infrastructure Transition Development Fund and the Resource Efficient Circular Economy Accelerator Programme again supporting the Investment Priorities identified here, recognising a clear link with our work on transition to a low carbon economy.

However, we feel some of the summaries of the strategic interventions / project proposals could have been expanded to better reflect the full scope and impact of these proposals.

The proposals set out a small number of strategic interventions around which the new programmes will focus. While we agree that this prioritisation is necessary, it should not exclude the possibility of amending or supplementing the proposed strategic interventions in the light of changing economic circumstances over the lifetime of the programme period.

As these strategic interventions are translated into the Scottish chapter of the Partnership Agreement and Operational Programmes, it is important that they are described in a strategic manner, focused on the expected outcomes and impact, rather than very project specific, in order to allow flexibility for the SDPs, lead and delivery partners to design the necessary activities required to delivery agreed outcomes. This should ensure added value, effective delivery and partnership working, responsiveness to changing needs and opportunities over the lifetime of the programmes and maximise the impact of interventions.

We feel that it is important that the **transition to a low carbon economy** is a cross cutting issue across the programmes, and explicitly brought out under each of the three strands. For example, we understand that as part of the SDP discussions there was discussion on low carbon market opportunities and low carbon innovation, and general agreement that this should be tackled under Competitiveness, Innovation and Jobs rather than Environment, Low Carbon and Resource Efficiency. We would therefore suggest that addressing low carbon innovation and market opportunities should be more explicitly referenced within the strategic interventions under CIJ. Over the long-term, we believe that the growth opportunities that will come from low carbon transition will far outweigh the savings from resource efficiency, therefore exploiting the growth potential of low carbon transition is a priority from an economic development perspective.

The ESIF and SDP processes also present a significant opportunity for strengthening partner alignment around Scotland biggest low carbon opportunities. Scottish Enterprise has identified 10 low carbon priorities, there is broad alignment between these and Green Growth priorities, and the Scottish Government supports this prioritised approach. It therefore makes sense to integrate an aligned and prioritised approach into our use of EU funding.

We have specific comments on the suggested Priorities as follows:

### **Priority 1 – Developing Scotland’s Workforce**

The scope and description of this priority could be strengthened to highlight some key areas of importance to the wider programme e.g.

- **Skills for innovation and entrepreneurship**, to complement work with companies in Priorities 2 and 3
- **Skills for international business and trade**
- **Skills to support the low carbon economic transition**, to complement Theme 2– support for the adaptation and acquisition of new skills to enable firms/sectors to respond to low carbon economic opportunities. SE has a good deal of information clarifying the nature of low carbon opportunities for each of the growth sectors. SDS/SFC are now developing an action plan to make sure that the skills supply system (FE/HE/schools) responds to identified industry demands. It is important that ESI supports the skills dimension to the low carbon ERDF measures.

### **Priority 2 – Business Competitiveness**

SE has been involved in the development of this Strategic Intervention and is content with the proposals being taken forward. However, in translating into the PA and draft Ops, the description of this Priority needs to be strengthened to better reflect the content of the proposed Strategic Intervention. Resource efficiency needs to be brought out more and linked to P9.

### **Priority 3 – Innovation**

SE has been involved in the development of this Strategic Intervention and is content with the proposals being taken forward. However, in translating into the PA and draft Ops, the description of this Priority needs to be strengthened to better reflect the content of the proposed Strategic Intervention, particularly in relation to the link between Innovation Centres and our aspirations for Horizon 2020 as well as greater emphasis on contributing to Scotland’s Smart Specialisation approach. Specifically it needs to put more emphasis on supporting business research, development and innovation and developing the capacity of SMEs in this respect. This would include workforce and workplace innovation – innovative actions within organisations to help stimulate innovation, productivity and boost economic growth. It would be helpful to mention eco- and low carbon innovation, and link support for centres of excellence, knowledge transfer and other elements of the innovation system to Sustainable Growth.

### **Priority 6 - Financial Engineering Instruments**

The investment priorities as described in the consultation document do not reflect the Scottish Government’s key priority of addressing access to finance for SMEs. We continue to recommend that a separate Priority axis be created for Financial Engineering Instruments, with £80m-£100m set aside to set up an Access to Finance for SMEs Holding Fund.

A separate Priority would reflect the substantial market failure evidence on SMEs' access to finance needs submitted to date; it would re-affirm Scotland's place at EU level as a leader and innovator in the field of financial instruments; also reflecting the growing importance which the Commission places in the utilisation of Structural Funds to develop financial instruments for SMEs. The suggestion to set up a separate Priority axis and Holding Fund was strongly supported by the Competitiveness Shadow Strategic Delivery Group. SE has been heavily involved in the consultation process to date, engaging with Scotland's public and private sector investment community, and is strongly of the view that initial scoping work supported by market evidence overwhelmingly suggests this as the favoured option for treatment of financial instruments in the 2014/20 Programme. SE's consultation has included close working with Scottish Government's Access to Finance Policy Unit, who strongly support the proposal described above."

### **Priority 7 Low carbon travel and transport**

As currently framed, this is very focused on specific interventions proposed by Transport Scotland. We feel it could be expanded to include wider aspects of smart mobility and sustainable transport, which would include activity being developed by SE, HIE and local authorities. Smart mobility in particular includes exploiting opportunities from the convergence of informatics, transport and energy, and could support activity relating to hybrid / electric / hydrogen vehicles and their integration with local renewable energy generation, transport system innovation. complimenting the potential for other strategic bids under discussion for Horizon 2020.

### **Priority 8 and 9**

We feel there should be an additional focus under either Priority 8 or Priority 9 on pilot and demonstration projects relating to low carbon and resource efficiency market opportunities, which could include for example collaborative sectoral, cross sectoral, supply chain and industrial symbiosis approaches to exploit low carbon market opportunities, increase resource efficiency and reduce energy demand. This would complement projects identified by Industry Leadership Groups, SE's Low Carbon Implementation Plan and the Green Growth Action Plan opportunities on water/waste water treatment, environmental sensing, sustainable food production and the circular economy/remanufacturing. SE and HIE would therefore become potential delivery partners.

Our preferred approach would be to leave Priority 8 to focus on the low carbon infrastructure fund and broaden Priority 9 to include a focus on low carbon market opportunities. This would support business and industry demand for low carbon products/services/technologies and also incorporate the existing industry-led approach to the circular economy.

### **Priority 8 Low carbon infrastructure transition development fund**

SE has been involved in the development of this Strategic Intervention and is content with the proposals being taken forward.

### **Priority 9 Resource efficient circular economy accelerator programme**

We are supportive of this proposal, which reflects the very active work SE is doing with SG, ZWS, SEPA and others. While SG and ZWS are expected to be lead delivery organisations, SE and HIE should have a role in supporting and delivering these activities.

The focus perhaps needs to be expressed more widely. For example, the “growth of reprocessing and remanufacturing industries” will be important, there *may* potentially be the emergence of new firms and sectors involved in resource management and reprocessing, the scale of this is completely outweighed by the economic impacts from the adoption of circular economy business models and practices in existing growth sectors.

There will need to be some clarification on the delivery of resource efficiency support to companies between this and Priority 2. Resource efficiency is a key element of future business competitiveness and should be an integral part of the company support provided under Priority 2

This proposal has strong links to the flagship initiative of the Europe 2020 Strategy, “A Resource-efficient Europe” in supporting the shift towards a resource-efficient, low carbon economy to achieve sustainable growth and jobs for Europe.

### **Priority 10**

Labour Market Mobility is primarily to be tackled through a “localised approach”. While the approach needs to be tailored to local circumstances, it would be important to ensure that initiatives link local activities with areas of labour market opportunity, to encourage sufficient labour market mobility and help build people’s capacity to take advantage of opportunities in the wider geographic labour market.

**Question 2** – Section 6 sets out the linkages between Structural, Rural and Fisheries Funds as well as linkages to other EU Funding Programmes. We would welcome stakeholder comments on these linkages in order to help us develop this thinking further

SE welcomes recognition made in the consultation to the need for all the ESI Funds and Commission-held funds to complement each other and be planned together. However, we acknowledge that this is difficult to achieve in practice when the programmes are in different stages of development. With this in mind, flexibility in design of projects under the Strategic Interventions over the programming period is important.

In terms of ESIF, there is a need for complementarity and coordination between ERDF, EAFRD and EMFF with respect to business development and innovation support, to avoid duplication / gaps and customer confusion. Rural businesses face the same needs to remain competitive as any other businesses, and exist in all sectors, not just food and drink, agriculture, tourism, forestry etc. so delivery of business support between the programmes needs to ensure that the full range of economic activity and opportunities in rural areas is considered.

SE and Scotland Europa are keen to support the development of a strategic approach to the use of EU funds in Scotland to include not just ESIF, but also including the INTERREG programmes, LIFE, COSME, Erasmus, Connecting Europe and Horizon 2020, to avoid potential duplication and overlap in proposals, and inefficient use of resource, and to best exploit the synergies to increase the overall impact of the funding and projects.

In line with the focus on Europe 2020, several of the different funds and programmes will have a focus on areas such as innovation, SME competitiveness, environment, resource efficiency, and climate action, which means we need to be smart about how we target activities and projects to make best use of them and about how we use the ESIF funds to develop capacity and / or act as a catalyst to support engagement in the competitive EU funds.

The Strategic Delivery Partnerships could have a role in maintaining a high level overview of opportunities and activity across the different funds and planning and management of how these are used to support the key objectives of the relevant theme.

More detailed comment could be made on **how** activity funded under ESIF could specifically complement other EU funds, and help Scotland to access and make the best use of the funds available, for example:

- Using the ERDF support under Priorities 2 and 3 to build the capacity of Scottish SMEs to innovate and internationalise, which will better equip them to participate in Horizon 2020 collaborative projects; tailored innovation and commercialisation support which will complement EU support to companies through the SME Instrument.
- Using support under Priorities 8 and 9 to develop ideas and projects to a level where they are able to benefit from other EU funds, including collaboration on demonstration projects under Horizon 2020, the Connecting Europe Facility, ELENA and European Energy Efficiency Fund.
- Possible Integrated Projects under the LIFE Programme which could provide resources for strategic and catalytic activity which will help to ensure funds targeted on the environment and sustainable development under EAFRD, EMFF and ERDF are delivered in a coordinated way, ensuring maximum impact.

There is no mention in the documents of Article 70 and the allocation / set-aside of funds for inter-regional co-operation, we see this as an omission which should be rectified, in order to cement Scotland's publicly stated commitment to Smart Specialisation and our recent engagement with the 'S3 Vanguard initiative' which has received endorsement for Cabinet Secretary John Swinney and is based on a greater focus on inter-regional co-operation for new growth..

It would also be worthwhile to mention fit with current and future macro-regional strategies, particularly the Atlantic Strategy, which is strongly aligned with Scottish priority areas such as offshore energy and the marine environment. DG MARE has strongly intimated that an 'absence' of the Atlantic Strategy in Partnership Agreements and Operational Programmes signals a lack of commitment to pursuing activity in the Atlantic area and could undermine any later attempts to engage with the Strategy.

**Question 3** - Do you think the new proposals will have a positive or negative impact on the protected characteristics and wider issues of inclusion and participation?

The proposals are not detailed enough at this stage to comment on whether they will have a positive or negative impact on protected characteristics and wider issues of inclusion and participation. More detail is required on proposed targeting, delivery and approach to equal opportunities, as well as on the potential outputs and impacts.

The overall focus of addressing an ageing workforce, youth unemployment and women in work (including childcare) are a positive focus. However disability seems to be mainly ignored. As with these other strands we are particularly keen to see more disabled people in leadership positions and more actively participating in public life.

This should be a major focus with 20% of the population falling in to the new definition of disability and this will likely increase with an ageing workforce and population.

There doesn't seem to be any reference to the 'newer' protected characteristics (religion/belief, sexual orientation, gender re-assignment, marriage & civil partnership, pregnancy and maternity). Any pro-active activity relating to equality should state that there is the possibility to include ALL the strands, otherwise people in these groups could feel excluded, having a negative impact on the groups and not fostering good relations between groups.

We believe equality is intrinsic to business competitiveness. Focusing on equality reduces costs (through greater staff retention and less need to recruit), creates innovation, opens up new markets and facilitates better access to public sector procurement. We could therefore mitigate negative impacts mentioned above if we embedded equality as a business competitiveness issue covering ALL strands.

Encouraging entrepreneurship with under-represented groups could mitigate the disproportionate unemployment (and exclusion) evident in a number of groups, particularly women, ethnic minorities, disabled and young people.

**Question 4** - If you think there will be a negative impact on the protected characteristics or inclusion and participation please provide suggestions as to what could be done differently to diminish this impact.

This must be a key consideration for the SDPs, lead and delivery partners as they design the interventions in more detail. The equality impact assessment carried out at PA / Programme level should be shared with the other bodies involved, to ensure that relevant recommendations are adopted. We would expect them to conduct project specific assessments, considering how decisions on design and delivery of could have an impact upon different groups in different ways, and develop approaches which will ensure equality of access and proactively seek to engage different groups in the funded activity.

**Question 5** - Please provide your views for improving the process for design, procurement, delivery, monitoring and evaluation to strengthen delivery of sustainable development.

We welcome the recognition given in the consultation to Sustainable Development as a Horizontal Theme and reference made to the SNH led work last year on Mainstreaming Environmental Sustainability into EU funds. This provides recommendations for innovative, practical, approaches to incorporating the principles of Environmental Sustainability, as an element of sustainable development, across all the objectives and funds making up the new programmes, from policy through to project delivery.

It is essential that environmental sustainability principles and activities are built into all levels of the development, selection and delivery of projects to be supported through the ESIF.

**Question 6** – Do you have any further comments on the proposals outlined in this document?

While we are broadly supportive of the proposals on **governance and delivery mechanisms**, we feel more detail is urgently required to allow potential lead and delivery partners and other stakeholders to understand how the new processes will work and what the implications are for project selection, delivery, management, monitoring and audit and compliance, as well as overall monitoring and strategic direction for the ESIF funds as a whole and individual Operational Programmes. We are particularly concerned that the consultation document made no reference to anticipated outcomes to be achieved by the programmes, this is a fundamental element in enabling stakeholders to fully consider the overall proposals.

Further details are needed on the remit and membership of the **Partnership Agreement Monitoring Committee (PAMC) and Strategic Delivery Partnerships (SDPs)**, and specifically the respective roles of these groups and how they will work in collaboration. We suggest this requires a clear articulation of how the PAMC and SDPs will work in practice to develop, select, manage and monitor activity for each of the Operational programmes and across the ESIF, including management of cross cutting issues such as equal opportunities and sustainable development.

In terms of the PAMC, while this is described as a strategic body, the tasks described are primarily operational. Strategic responsibilities could include ensuring that ESIF funds are strongly aligned to domestic priorities, considering the balance across the portfolio of EU investments, and ensuring that sufficient prioritisation is taking place to meet needs and aspirations.

There is a lack of clarity on the role of the PAMC with respect to the EAFRD and EMFF programmes.

The PAMC and /or SDPs role should include looking at the interaction of ESIF with other EU funds, as suggested above.

Further consideration is also required of sectoral, stakeholders and geographical representation.

The SDPs are seen as having a key role in acting as operational bridges between activity on the ground and high level direction. It is therefore important that they have the right remit and composition of membership with appropriate skill sets for individuals that will sit on the groups, and that mechanisms are in place for communication and coordination across the three SDPs, to ensure complementarity of activity and avoid duplication of effort.

It is not clear how the detailed proposals for the strategic interventions and the projects to be delivered within them will be selected and approved, for example where the decisions on what is funded will be made, and if there will be an advisory group or sub-committee structure to inform these decisions or the ongoing monitoring of performance.

The proposal is that strategic interventions will be fronted, match funded and managed by a lead partner, with a wide range of organisations to deliver on-the ground outcomes, and that this will have some very specific advantages for Scotland. We have some concerns about the implications of this statement in terms of lead partners having contractual responsibility for both outcomes and impacts and the audit burden.

This is an area which requires a great deal more clarity before it can be fully accepted by the nominated lead partners.

The **role and remit of lead partners** is a key concern to all stakeholders and needs clarification on the following issues:

- Relationship between the SDP and the lead partner for each intervention: What will be the decision making protocol for detailed content of programmes and selection of individual projects to be funded? How much autonomy will the lead partners have to make quick decisions on priorities and project proposals? This is linked to how the strategic interventions are described in the PA and OPs and ensuring there is enough flexibility to adapt activity to changing needs and opportunities over the programme period.
- Relationship between lead partners and delivery partners. There are key concerns here in terms of:
  - **Public procurement and state aid issues** relating to selection of delivery partners and contractual relationships between the lead partner and delivery agents – it simply may not be possible for lead partners to enter into this type of agreement without competitive tendering
  - **Match funding** – how delivery partners and other potential funders can bring match funding into strategic interventions, to increase the impact and secure the full amount of match funding required. There is a need for clarity on what constitutes how and when this needs to be confirmed, and whether there is scope for the private sector to play a greater role in leveraging funds.
  - **Responsibility for delivery of outcomes and impacts** when delivery is through third parties – this will require strong contractual relationships to be put in place.
- The “**management of the audit burden** at a high level”. The document specifically refers to lead partners verifying the value of all financial claims and ensuring that expenditure is properly defrayed on eligible activity.
  - The current proposals do not imply a reduction in the audit burden for the delivery partners, rather a shifting of responsibility for management from the Scottish Government to the lead partners. It will be important to provide more detail on simplified costs and the move to an outcomes based monitoring approach.



- The lead partners will need to put measures in place to ensure delivery partners provide sufficient information to evidence reported outputs and results and actuality and eligibility of expenditure. This can only be managed with:
  - Contractual relationships between lead and delivery partners
  - Clear responsibility with delivery partners on compliance with EU regulations, national rules, equal opportunities etc.
  - A requirement for delivery partners to provide and maintain records to evidence performance and expenditure
  - Technical assistance to lead partners to resource them to carry out monitoring, compliance, audit and reporting functions currently performed by the Managing Authority

Consideration should be given to the form of grant agreements between the Managing Authority and the lead **and** delivery partners. For example, the model adopted in FP7 whereby the grant agreement is between the Coordinator (lead partner), but each beneficiary (delivery partner) signs an accession to the grant agreement, which makes them responsible for ensuring compliance with the conditions of grant, including submission of financial statements, maintaining all records to support these statements.

Any real reduction in the audit burden for delivery partners can only be achieved if there is significant progress on **simplification**, for example through the use of **unit costs**. SE is engaged in the simplification work and development of unit costs models, but there are some important principles to be established, around:

- Potential to agree unit costs at a Programme level, based on some transparent methodology, which would reduce the requirement to provide detailed financial information. This is being introduced under Horizon 2020, based on historical evidence of average costs for certain types of project.
- Implications of defining unit costs at a project / organisation level. There are examples from FP7 of adopting approved methodologies for average personnel costs, but use of these is based on audit evidence, such as timesheets. If unit cost methodologies cannot be defined at programme level, the normal process for agreeing unit cost at a project level would be through competitive tendering, and thought needs to be given as to whether this is essential in order to demonstrate value for money, and the implications for engaging with different types of delivery organisations.

There is a lack of detail and clarity of the delivery of **Financial Instruments** – see comments above.

More prominence could be given to **smart specialisation strategy**, the process by which Scotland plans to approach smart specialisation, how priorities will be decided and how this will be integrated into delivery of the funds.